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New Zealand Productivity Commission  
PO Box 8036  
The Terrace  
WELLINGTON 6143

Submission of:

**Horowhenua Grey Power Association Incorporated**  
(Submitters reference: HGP No. 1)

## **Local government funding and financing inquiry**

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This document is part of a series of representations and general observations that we wish to convey to the Productivity Commission for consideration as part of the Inquiry into Local Government Funding and Financing (2018 – 2019).

By referring separately to each of our concerns we hope to avoid ambiguousness and improve understanding of the overarching concerns of our membership and our wider community.

We welcome the announcement of this inquiry with great anticipation.

From our perspective as ratepayers responsible for meeting the arbitrary costs of local government, levied specifically against the households within our communities; we recognise the present inquiry as a virtual re-constitution of the 2007 initiative which led to the publication of the 'Shand Report'.

Contrary to the wellbeing objectives of the former research, the past decade has seen the 'affordability' of local government funding for low to middle income households within our district<sup>1</sup> deteriorate to a level where it is totally and unreasonably disproportionate to the valuation of property in householder ownership and occupation.

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<sup>1</sup> The district administered by Horowhenua District Council

Worse though, the burden of meeting rating demands on the incomes of such households is a direct contribution to impoverishment of a large section of our population. So much so, in our opinion, that we seriously suggest a definitive review of the seriously regressive rating model employed within our district might be included as part of the present inquiry, as a graphic example of the many potential, misdirected policy outcomes, the inquiry's terms of reference seek to identify and discourage.

We do not make these claims lightly. For decades now, Horowhenua Grey Power has made detailed assessments of the unaffordability of the district's rating model for low to middle income householders and, has unsuccessfully resisted incremental transfer of inherent rating costs from rural and urban business to the disadvantage of householders.

It is not that our assertions of Council bias to the detriment of householders has ever been challenged. Councillors have simply set our representations aside, apparently preferring, by some unspoken policy, to relentlessly prioritise commercial interest over the wellbeing of low-income recipients. It seems to us the discretion as to 'modification of rating distribution' enjoyed by elected local government representatives is too wide and that there is need for legislation to prescribe parameters that will limit the present risk of compromising community wellbeing.

### **Our perspective(s):**

For greater clarity, in the following section we will offer our comment and/or reply to your specific questions; in similar sequence to the page numbering of the Issues Paper:

#### **Issues Paper (Page No. 11)... Question No. 1**

"What other differing circumstances across councils are relevant for understanding local government funding and financing issues?"

We suggest household income statistics are an important demographic consideration for 'affordability' of local government rates<sup>2</sup>.

#### **Issues Paper (Page No. 19)... Financial Prudence Benchmarks**

We believe the 'benchmark' for rates affordability is irresponsibly inadequate. All Local Government needs do to meet the stated benchmark is to inflate the projected costs of future operating expenses and/or capex projects set out in their periodic Long Term Plan. From that point onward the 'quantified limit' reflects the arbitrary estimated cost of such operating and capex activity.

This clearly 'specious' benchmark permits each council to claim their rating intentions are 'affordable' without addressing the requirement of the Local Government Act:

"to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses..."<sup>3</sup>

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<sup>2</sup> Horowhenua Grey Power Association (2014), *District Demographics Horowhenua, implications for community wellbeing and property rating*.

<sup>3</sup> Local Government Act 2002, section 10, subsection (1) (b).

## Issues Paper (Page No. 26)... Average annual growth in rates per capita

We are not surprised by your revelation that Horowhenua District Council holds the dubious distinction of relative prominence among the five (5) councils with the steepest 'average annual growth in rates per capita' during the last 21 years (1996 – 2017).

Reference to Horowhenua's Long Term Plan<sup>4</sup> prompts real concern for the financial viability of the district when it is noted that over the ensuing 5 years to 2022 the average annual increase is maintained at 5.95%.

Our concern regarding the affordability of rates for low to middle income householders approaches crisis point when it is considered that the overlaying of median personal incomes<sup>5</sup> on your five identified councils indicates Horowhenua District Council having to find sufficient funding while being 'the worst performing of these local economies'.

<b>Median Personal Income ( N Z Census 2013)</b>		
Local Authority	Income \$	Ranking Index
Waitomo	25,700	781
Ashburton	32,900	1000
Hauraki	23,100	702
Westland	29,000	881
Horowhenua	21,800	663

## Issues Paper (Page No. 31)... Question No. 4

"What are the implications of demographic changes such as population ageing for the costs faced by local government?"

We consider that the extreme rate of population ageing within Horowhenua, without external intervention which delivers an 'age friendly' rating model, will progressively worsen the already unsustainable 'rating affordability' for low to middle income households. As our immediate neighbour, Kapiti Coast District Council also has a remarkably 'aged' population, even ultimate amalgamation would not of itself correct the imbalance. As a last resort, the district will need substantial grants assistance from central government.

## Issues Paper (Page No. 38)... Question No. 13

"What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?"

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<sup>4</sup> Horowhenua District Council (2018), Long Term Plan,  
<https://www.horowhenua.govt.nz/Council/Plans-Strategies/Long-Term-Plan-2018-2038>

<sup>5</sup> Median personal incomes, Department of Internal Affairs NZ, Census 2013,  
[http://www.localcouncils.govt.nz/lqip.nsf/wpg\\_URL/Profiles-Councils-by-Name-Index?OpenDocument](http://www.localcouncils.govt.nz/lqip.nsf/wpg_URL/Profiles-Councils-by-Name-Index?OpenDocument)

We ask “has the dissolution of council works departments favouring private sector contractors, saved expenditures or has it actually generated additional costs?”

### **Issues Paper (Page No. 41)... Questions No’s. 15 & 16**

“How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses?”

“How effective are councils’ Long-term Plan consultation processes in aligning decisions about capital investments and service levels with the preferences, and willingness and ability to pay, of residents, businesses and other local organisations?”

In both cases we believe Horowhenua’s Long Term Plan process is totally ineffective because of a clear bias toward unfair transfer of legitimate costs for commercial ratepayers to ill-informed or otherwise acquiescent residential ratepayers.

### **Issues Paper (Page No’s. 41 & 42)... Measures to improve affordability for specific groups**

We agree, two of the significant conclusions of the ‘Shand Report’ e.g. that rates were unaffordable for householders but affordable for businesses<sup>6</sup> should be an important influence on the research activities of the present inquiry. Indeed, the deteriorating influence of Local Government rates on the after tax incomes of low to middle income householders is at the core of our concerns.

Shortly before the change of Government in 2008, the responsible Minister directed Local Government New Zealand (LGNZ) to encourage member councils to introduce ‘model’ rating systems which, among other objectives, would improve the affordability of rates for residents as opposed to commercial interests. Sadly, even after a period of 10 years grace, in the case of Horowhenua District Council this has not happened.

With regard to the inertia by LGNZ and certain local councils, we are surprised to note an illuminating, LGNZ report, titled ‘**No Magic Answers’ (an analysis of the impact of the recommendations from the *Independent Inquiry into Rates on rating tools.*) (March 2008)**<sup>7</sup> has escaped inclusion in the many listed references appended to the Issues Paper.

We trust the significance of the case study of Horowhenua (pages No’s. 41 – 44) might be recognised as sufficient justification for our earlier request in this submission, for Horowhenua District Council’s rates distribution to be specifically referenced in the present inquiry as an example of the causative policies which lead to seriously regressive impact on the community groups least able to afford such politically motivated patronage.

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<sup>6</sup> Report of the Local Government Rates Inquiry (2007), page no’s. 183 & 184, sub-sections 12.5 & 12.6.

<sup>7</sup> ‘No Magic Answers’, Local Government New Zealand (March 2008), is provided as an attachment to the emailed cover page for this submission.

## **Issues Paper (Page No. 44)... Rates Rebate Scheme**

The scheme provides easily accessed and greatly appreciated financial assistance to low-income households in Horowhenua.

But, it does not deserve to be regarded as we strongly suspect our elected council representatives are inclined; as a salve to their conscience for failure to honour their 'first principle' responsibility to design and maintain a rating model which delivers affordability to low-income households.

In the presence of the specifically targeted data represented by their Rates Rebate administration account, every council can quantify the degree of existing rates unaffordability within their district and similarly, they have the means of projecting trends in such undesirable impact of future operating and capital projects.

Additionally, the rebate entitlement parameters of the existing scheme might also be utilised to provide a 'regressivity' index and, thereby, a ranking device for individual councils.

## **Issues Paper (Page No. 45)... Allocation of costs across local communities**

There are obvious anomalies in both the 'benefit' principle and the 'ability to pay' principle but in the final analysis the 'ability to pay' principle should be predominate as it underpins the ultimate sustainability of the rating system.

Additionally, the author is of the opinion that inherent in the 'ability to pay' principle there is a common benefit to all ratepayers within our communities, being that regardless of property type each rating unit is a repository of wealth, i.e., an asset enhanced by the services provided by local government. If, therefore, property rates were regarded as a form of insurance (a fee recovered by local government for maintaining and/or enhancing property values), the first principle of cost allocation across local communities should be "that the nominal impact of property rating should be basically proportionate to valuation."

Further, the 'benefit' principle is unsound. In most territorial authorities the beneficial users of a council service are identified by the proximity of the property to the particular service(s) funded by a 'targeted' rate. Rural properties are often excluded from liability on the basis of their remoteness. There is no element of fairness in such 'private good' assessment as household occupation varies widely from property to property and in a majority of rural properties certain members of such households are 'hosted' at work or in education many days in each week by the nearest urban centre.

## **Issues Paper (Page No. 45)... Question No. 27**

"How do councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?"

We suggest the continuing or increased use of differentials is the answer. Just as differentials have been widely used to adjust for anomalies in the General Rate (valuation proportionate) approach, more use of realistic differentials would provide

for some contribution to ‘public access’ services latterly funded solely by targeted rates on urban properties.

## **Issues Paper (Page No. 46)... Rating Differentials**

While we attach importance to the use of differentials to achieve fair and sustainable modification of the anomalies arising from the misalignment between the principles of ‘beneficiary pays’ and ‘ability to pay’ with regard to the impact of rates across communities; we certainly do not accept that the determination of appropriate differentials is always transparent, logical and free of political patronage.

It is a pity that the Issues Paper does not include a table illustrating the typical general rate relationship between urban and rural property in provincial territorial authorities as a comparison with metropolitan areas. We have constructed a table illustrating this phenomenon in the Horowhenua District:

<b>Horowhenua District Council (2018-2019)</b> (Impact of General Rate across community groups)	
Category	Differential
Residential (Urban)	1.00
Residential (Rural)	1.00
Business (Urban)	1.00
Business (Rural)	0.30

We, therefore, ask:

“With regard to the impact of General Rates, is the extreme patronage of business, particularly rural business, evident in Horowhenua, typical of all District Councils and does not the specific circumstance of Horowhenua justify a ‘case study’ by the Productivity Commission?”

## **Horowhenua’s Household Incomes**

As will be seen from the attached analysis ‘District Demographics Horowhenua’<sup>8</sup> an acute affordability problem exists for a large proportion of Horowhenua residential ratepayers.

## **The outcome we seek from the Inquiry**

As active submitters to the Long Term Plan and Annual Plan processes of Horowhenua District Council for at least the last twenty years we have become increasingly sceptical of what we discern as a lack of transparency, prudence and accountability in the operations and consultation processes of local government.

We trust the Productivity Commission will ultimately recommend the implementation of periodic performance review and more pertinent benchmarking of expense and funding indicators. Local government remains an important institution that deserves the public scrutiny and informed support of local communities of interest.

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<sup>8</sup> Horowhenua Grey Power Association, ‘District Demographics Horowhenua’ (2014)

## **Horowhenua Grey Power... our organisation's profile**

Horowhenua Grey Power is an incorporated society, affiliated to Grey Power New Zealand Federation.

We presently enjoy a financial membership of 780 householders throughout the district of Horowhenua. Towards the end of our financial year at 31 March 2019, we anticipate membership will have increased to our usual coverage of about 900 persons.

The large majority of our members rely on New Zealand Superannuation as their principal source of income.

Additionally, we are active networkers across the other voluntary organisations throughout our district and are recognised as sharing similar wellbeing objectives with the younger families within our boundaries.

Yours sincerely,

Horowhenua Grey Power Association Incorporated

A handwritten signature in black ink, appearing to read 'Lew Rohloff', with a large, stylized initial 'L'.

Lew Rohloff  
Life Member

Attachments:

- (1) 'District Demographics Horowhenua' (Horowhenua Grey Power Association)
- (2) 'No Magic Answers' (Local Government New Zealand)